

Message Text

SECRET

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S E C R E T TEHRAN 7611

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REFS: (A) TEHRAN 6142; (B) TEHRAN 6326; (C) TEHRAN 6860;
(D) TEHRAN 7361; (E) JIDDA 5138; (F) TEHRAN 7511

SUBJ: SHAH ON CRUDE OIL PRICES

1. IN EXTENDED REMARKS ABOUT CRUDE OIL PRICES AT AUDIENCE ON SEPTEMBER 10, THE SHAH INDICATED THAT IRAN'S APPROACH AT THE UPCOMING OPEC MEETING WILL BE TO PRESS FOR A SINGLE PRICE ON CRUDE OIL ATTACHED TO SOME YET-TO-BE DETERMINED INDEX TO COMPENSATE FOR "INFLATION AND DEFLATION". THE SHAH IS ALSO GOING TO PUSH FOR A ONE AND ONE-HALF PERCENT RISE IN ROYALTIES WHICH WILL MAKE FOR AN INCREASE OF ABOUT TEN CENTS

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A BARREL. HE POINTS OUT THAT THIS MOVE IS DESIGNED TO CUT

INTO OIL COMPANY PROFITS, NOT TO RAISE THE PRICE AS SUCH PER BARREL OF OIL. (ROYALTIES ARE DIVIDED 50-50 BETWEEN THE COMPANIES AND THE COUNTRY INVOLVED.) SIMULTANEOUSLY THE SHAH WILL ASK THE OTHER MEMBERS OF OPEC TO BRING ROYALTIES WORLD-WIDE IN LINE WITH THOSE WHICH VENEZUELA NOW CHARGES. TO SUMMARIZE, THE SHAH THROUGH MINISTER AMOUZEGAR WILL GO AT THE OPEC SESSION FOR A ONE-PRICE SYSTEM HITCHED TO INFLATION AND DEFLATION PLUS A NEW ROYALTIES APPROACH DESIGNED TO REDUCE OIL COMPANY PROFITS AND STABILIZE THE OVERALL ROYALTY PROCEDURES.

2. IN DISCUSSING CRUDE OIL PRICING, IT WAS CLEAR THAT THE SHAH HAS HIS DANDER UP ABOUT BEING ACCUSED OF LEADING THE RISE IN CRUDE OIL PRICES. HE POINTED OUT THAT HE IS CURRENTLY PLAYING A DISTINCTLY MODERATING ROLE. HE SAID THAT IT IS PUBLIC KNOWLEDGE THAT VENEZUELA, ALGERIA AND OTHERS WANT AN INCREASE IN PRICE AT THE SEPTEMBER 12 OPEC MEETING, CITING SPECIFICALLY VENEZUELA'S DEMAND FOR A PRICE UPPING OF FOURTEEN PERCENT. (AT THIS JUNCTURE THE SHAH EXPOSTULATED "VENEZUELA IS IN THE VANGUARD OF COUNTRIES CHARGING HIGH PRICES FOR OIL, YET I HAVE NEVER SEEN A SINGLE WORD OF CRITICISM ABOUT VENEZUELA IN ANY AMERICAN NEWSPAPER DESPITE THE FACT THAT YOUR COUNTRY IMPORTS MUCH OIL FROM THERE.") THE SHAH WENT ON TO COMMENT THAT HE DOES NOT WANT TO SEE AN ADDITIONAL RISE IN OIL PRICES BUT THAT HE DOES FEEL IT ABSOLUTELY ESSENTIAL THAT HE BE ABLE TO PROTECT HIS PURCHASING POWER. IN THE EVENT OF "DEFLATION", HE IS PREPARED TO SEE THE OIL PRICE GO DOWN. AT THIS POINT HE STATED THAT THE GOI IS NOW PAYING \$840 A TON FOR SUGAR, \$225 A TON FOR WHEAT, \$1,060 FOR VEGETABLE OIL, ALL IMPORTS OF IRAN. HE INDICATED THAT IN ONE YEAR'S TIME THE PRICE CHARGED BY THE USG FOR THE JEEP USED TO HAUL THE TOW MISSILE HAS GONE UP ONE-HUNDRED PERCENT. "THE INFLATION IN YOUR COUNTRY IS NOT CAUSED ESSENTIALLY BY OIL PRICES. THEY CONTRIBUTE ONLY ONE AND ONE-HALF PERCENT TO YOUR INFLATION. THE REMAINDER IS DUE TO OTHER FACTORS, THE PRICES OF OTHER COMMODITIES, AND YOUR SYSTEM OF DOING BUSINESS", THE SHAH COMMENTED. "IF YOU WANT TO BRING THE PRICE OF OIL DOWN, WHY DON'T YOU REDUCE THE MONSTROUS PROFITS OF THE OIL COMPANIES"? ALSO, WHY DON'T YOU AND PARTICULARLY THE WESTERN EUROPEAN COUNTRIES TAKE THE DOMESTIC TAXES OFF OIL AND ITS DERIVATIVES? THAT WOULD BE DOING SOMETHING TO REDUCE THE PRICE RATHER THAN ASKING US TO GIVE UP

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WHAT IS OUR RIGHTFUL DUE. THE DAY HAS PASSED WHEN THE BIG INDUSTRIAL COUNTRIES CAN GET AWAY WITH POLITICAL AND ECONOMIC PRESSURE TACTICS. I HAVE NO IDEA WHAT THE MEETING OF WESTERN FINANCE MINISTERS IN PARIS LAST WEEKEND WAS COOKING UP, BUT I WANT YOU TO KNOW THAT THE SHAH WILL NOT YIELD TO FOREIGN PRESSURE ON OIL PRICES."

3. IT WAS CLEAR THAT THE SHAH DOES NOT BUY THE CONTENTION THAT

CURRENT OIL PRICES ARE GOING TO BANKRUPT THE INDUSTRIALIZED WORLD. HE POINTS OUT, ALSO, THAT THE LDC'S WHICH THE UNITED STATES SEEMS SO CONCERNED ABOUT ARE OBLIGED TO PAY THE SAME HIGH PRICES FOR AMERICAN WHEAT, OTHER AGRICULTURAL COMMODITIES, AND MANUFACTURED GOODS WHICH IRAN DOES.

4. REFERRING TO HIS MEETING WITH PRINCE SAUD ON SEPTEMBER 2, THE SHAH INDICATED THAT HE WENT OVER WITH HIM IN GREAT DETAIL THE VARIOUS POINTS MADE IN REFTELS, PLUS A STEP-BY-STEP EXPLANATION OF WHAT WILL HAPPEN TO OIL PRICES IF SAUDI ARABI INSISTS ON 100 PERCENT PARTICIPATION IN ARAMCO AT CURRENT BUY-BACK RATES. THE SHAH PROMOTED AS WISEST FOR SAUDI ARABIA AN ARRANGEMENT WITH ARAMCO SIMILAR TO THE ONE IRAN MADE WITH THE CONSORTIUM. AS A RESULT OF THIS PRESENTATION, IT IS THE SHAH'S IMPRESSION THAT PRINCE SAUD IS BEGINNING TO UNDERSTAND THE VIEWPOINT OF OTHER MEMBERS IN OPEC. HE CLAIMS THAT PRINCE SAUD ASSURED THE ALGERIANS THAT SAUDI ARABIA WOULD NOT TRY TO LOWER OIL PRICES. THIS INFORMATION, HE INTIMATED, WAS CONVEYED TO HIM ON SEPTEMBER 9 WHEN HE WAS VISITED BY ALGERIAN MINISTER OF INDUSTRY AND ENERGY, BELAID ABDESSALEM, WHO WAS PUSHING THE SHAH FOR A PRICE INCREASE AT THE OPEC MEETING. (IN ORDER THAT THERE BE NO AMBIGUITY, THE SHAH IS NOT ENTIRELY CLEAR AS TO EXACTLY HOW PRINCE SAUD REACTED TO HIS PRESENTATION AND TO HIS ARGUMENTS.)
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